

CITY COUNCIL FINANCE COMMITTEE MINUTES

May 19, 2010

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a Finance Committee meeting at 5:30 p.m. in the Municipal Building Conference Room on the 19th day of May, 2010, and notice and agenda of the meeting were posted at the Municipal Building at 201 West Gray, and the Norman Public Library at 225 North Webster 48 hours prior to the beginning of the meeting.

PRESENT: Councilmembers Atkins, Butler, Cubberley, Dillingham, Ezzell, Griffith, Kovach, Quinn, Mayor Rosenthal

ABSENT: None

DISCUSSION REGARDING PROPOSED INCREASES FOR UTILITY RATES.

Chairman Doug Cubberley said the Finance Committee will be discussing utility rate increases for sanitation and water and budget amendments. He said if Council intended to have an August election, Staff needed direction in terms of rates to be placed on the agenda by late May or early June. Ms. Brenda Hall, City Clerk, said First Reading would need to be June 8, 2010. Chairman Cubberley said Council will also need to understand budget implications before making amendments.

SANITATION

Mr. Mark Daniels, Utilities Engineer, said Norman's sanitation service and fees is typical to most communities except for composting, curbside recycling, fall and spring cleanups, and household hazardous waste event. He said additional services provided that the City is not compensated for are trash clean-up for various festivals, and football game weekends as well as trash receptacles on Main Street and Campus Corner. He said the last rate increase was July, 2004, from \$8.50 to \$11.50 and in March, 2008, curbside recycling was added for a fee of \$3.00 per month. He highlighted rates from various benchmark communities. He said the current rate for Norman is \$14.50 per month with proposed increases as follows: 1st year -\$15.50 (6.9%), 2nd year -\$16.25 (4.8%), and 3rd year -\$16.75 (3.1%). Mr. Daniels said commercial rate increases would be similar to residential with 7% the first year, 5% the second year, and 3% the third year. He said commercial rates are based on the size of the container and frequency of pickups.

Chairman Cubberley asked if the rate increase supports continued acquisition of new trucks and Mr. Daniels said yes. Councilmember Kovach asked if that would be replacing with standard vehicles or Compressed Natural Gas (CNG) vehicles and Mr. Anthony Francisco, Finance Director, said it was based on standard vehicles. Mr. Daniels said the budget figures also include the addition of two new employees in FYE 2012 and FYE 2013. He said the Sanitation Division is looking at the possibility of eliminating alley collection to improve efficiency.

Chairman Cubberley said the City has an 8% reserve policy, but the budget is depicting a deficit in FYE 11 and beyond and asked Mr. Francisco how much reserves the proposed rate increases would give the City and Mr. Francisco said approximately 4%.

Councilmember Griffith asked what objections there would be to raising the rate \$1.00 each year for the next three years and Mr. Francisco said the objective was to get caught up the first year, then maintain reserve levels after that. Mr. Steve Lewis, City Manager, said it was thought the sanitation rate increase concurrent with the water rate increase would have a cumulative effect. Chairman Cubberley said he liked the shorter timeframe of three years as the last utility rate increase had an outlook of five years and the City has been on a rollercoaster of expenses since it is hard to project long term. Councilmember Dillingham said she is concerned the rates may not be high enough to meet future needs and Mayor Rosenthal agreed.

Mr. Francisco asked if it was Council's desire to increase rates by \$1.00 per year and Chairman Cubberley said there were two proposals, one for \$1.00 the first year and \$.75 in years two and three and the other proposal was \$1.00 per year.

WATER

Mr. Mattingly reviewed the water rate increase proposal and said Norman has the lowest water rates in comparison to benchmark cities. He said Tulsa is lower, but is expecting to increase their rates by 7% within the next five years. He said another city lower than Norman is Midwest City, but they just passed a \$.50 increase. He said Norman is the lowest on commercial rates and will remain lower even with the proposed increases. In 2006, the average water use was 10,000 gallons, which represented 80% of the population and that has been reduced to 8,000 gallons or 88% of the population. He said customers using less water could be attributed to conservation.

The American Water Works Association (AWWA) water rate surveys depict that 187 cities out of 200 cities surveyed have a base meter multiplier because larger meters can have a larger impact on the water supply system. He suggested Norman have a multiplier for larger meters, which would only affect those customers who use a large quantity of water at any one time such as industrial uses. He discussed the different rates using the multiplier method. Mr. Lewis said the multiplier is standard in terms of the AWWA principles and uses a new methodology to customers and he suggested that Council reject this method for the new water rates as there is not enough time to communicate this method going forward.

Chairman Cubberley asked how long Oklahoma City has used the multiplier and Mr. Daniels said since 1998. Mr. Mattingly said many surrounding communities use the multiplier method. Chairman Cubberley said one of Norman's goals is conservation and it may be worthwhile to start using the multiplier method. Mayor Rosenthal suggested introducing the method to commercial customers since they are the ones most likely to use large quantities of water and Councilmembers agreed.

Mr. Mattingly discussed proposed residential water rates are as follows:

GALLONS	EXISTING FEE	PROPOSED 1ST YEAR	PROPOSED 2ND YEAR	PROPOSED 3RD YEAR
Base Fee	4.00	4.00	4.00	4.00
0 – 5,000	2.00	2.25	2.40	2.55
5,001 – 15,000 .	2.10	2.60	2.75	2.90
15,001 - 20,000	2.75	3.25	3.40	3.55
OVER 20,000	4.95	5.50	5.70	5.85

Mr. Mattingly discussed proposed commercial water rates as follows:

	EXISTING FEE	PROPOSED 1ST YEAR	PROPOSED 2ND YEAR	PROPOSED 3RD YEAR
Base Fee	4.00	4.00	4.00	4.00
Meter Multiplier	N/A	YES	YES	YES
Per 1,000 gallons	2.10	2.50	2.75	2.95

Mr. Mattingly said there are large capital projects that can be juggled to keep the budget in the black; however, Chairman Cubberley said the City is continually putting off capital projects to keep figures inline, but that just makes the capital programs go off-course. He asked how much the rate increase would be per 10,000 gallon customer and Mr. Mattingly said \$3.75 per month (9%). He said the 2nd year would be an additional \$1.50 (4%) and the 3rd year would be another \$1.50 (4%).

Councilmember Kovach said the last time the City went to the voters they were promised emergency generators and a Taste and Odor solution and when voters ask questions about these things the City is going to have to give them hard answers about these projects. Mr. Mattingly said the generator is in process of being paid for and the Taste and Odor solution is in the planning stages. Mayor Rosenthal said voters should be reminded of projects that have been completed. Councilmember Butler asked at what point would the water plant expansion provide more water capacity and Mr. Mattingly said after Phase I. Mr. Lewis said after Phase I the volume of water pumped would go from 14 million gallons per day (mgd) to 17 mgd.

Mr. Mattingly said \$7 million was budgeted in FYE 11 to have money available to purchase water rights that may become available. Ms. Walker said the \$7 million was put aside for the City's share of Sardis Lake and Oklahoma City is currently negotiating an agreement to purchase those water rights and part of that agreement is to pay for all present water rights by the end of the fiscal year. She said if other cities want to participate, they would have to be ready financially fairly quickly. She said this has been put on hold because of the State of Oklahoma's negotiations with the tribes, which could delay or change the transaction. Chairman Cubberley said if the money were expended for the water rights and Norman decided not to further participate in the water trust, is that an asset that could be sold and Ms. Walker said yes.

Chairman Cubberley asked Council's direction on the water rates and Councilmembers said they were comfortable with the proposed rate increases and asked Staff to move forward. Mayor Rosenthal said she felt the multiplier method should be introduced on the commercial side and Councilmembers agreed.

Chairman Cubberley said Council would review the sanitation portion at the June 1st Study Session to finalize.

DISCUSSION REGARDING THE FYE 2011 BUDGET INCLUDING DRAFT BUDGET AMENDMENTS.

Mr. Francisco highlighted FYE 11 budget changes and said since the last Finance Committee Meeting, Staff was given new direction. He said Council wanted to see what those changes would look like so Staff constructed different scenarios for each proposal. He reviewed the proposed revenues and expenditures outlined at that meeting and said total proposed revenues are expected to be \$1,391,190 and expenditures \$3,442,355. Mr. Francisco said there was a proposal to transfer costs for several personnel positions funded within the General Fund (GF) that support capital projects such as inspector and engineer positions to the Capital Fund (CF) totaling \$415,143. Councilmember Butler asked if there were a couple of engineer positions already supported by the CF and Mr. Francisco said yes, there were several positions funded this way and this would just add more positions. Chairman Cubberley said he understood it is not the entire position funded, but a percentage based on the time expended in terms of working on capital projects and Mr. Francisco said that is correct.

Mr. Francisco said there is a proposed change to the estimated revenue from the Public Safety Sales Tax (PSST) from a 2% growth assumption to a 0% growth assumption that was made in the GF in the amount of \$151,000. Councilmember Ezzell asked if that was already built into the City Manager's budget and Mr. Francisco said the 2% growth was, but in the GF the growth assumption was changed to 0% and that assumption was not carried forward into the CF or PSST so this would correct that discrepancy.

Mr. Francisco said the major direction from Council was to reinstate eliminated positions that had encumbered employees in the amount of \$1,300,000.

Mr. Francisco said another proposal incorporates the Oklahoma Department of Transportation's (ODOT) decision that City's will be responsible for mowing of rights-of-way on State highways in their jurisdiction and the cost would be \$60,000 for half of the fiscal year.

Mr. Francisco discussed the five scenarios Staff put together based on Council's direction as follows:

- ❖ Scenario I – \$1,019,000 from emergency reserve to spend on May tornado and damages and put back \$942,575 into the FYE 11 that is proposed reimbursement from Federal Emergency Management Agency (FEMA)
 - Include new revenues and amendment list items
 - Include a transfer for GF employees to CF in FYE 11 only
- ❖ Scenario II - \$1,019,900 from emergency reserve for May tornado and damages and put back \$942,575 into the FYE 11 that is proposed reimbursement from Federal Emergency Management Agency (FEMA)
 - Include new revenues and amendment list items
 - Include a transfer for GF employees to CF in all years
- ❖ Scenario III - \$1,019,000 from emergency reserve to spend on May tornado and damages and put back \$942,575 into the FYE 11 that is proposed reimbursement from Federal Emergency Management Agency (FEMA)
 - Add back all filled positions that were eliminated in the City Manager's budget (\$1,300,107 GF, \$77,033 Recreation Fund, and \$65,994 Westwood Fund)
 - Include new revenues and amendment list items
 - Include a transfer for GF employees to CF in FYE 11 all years
- ❖ Scenario IV - \$1,019,900 from emergency reserve for May tornado and damages and put back \$942,575 into the FYE 11 that is proposed reimbursement from Federal Emergency Management Agency (FEMA)
 - Add back all filled positions that were eliminated in the City Manager's budget (\$1,300,107 GF, \$77,033 Recreation Fund, and \$65,994 Westwood Fund)
 - Include new revenues and amendment list items
 - Include a transfer for GF employees to CF in all years
 - Transfer \$984,000 from PSST to use for the Smalley Center
- ❖ Scenario V - Scenario II - \$1,019,900 from emergency reserve for May tornado and damages and put back \$942,575 into the FYE 11 that is proposed reimbursement from Federal Emergency Management Agency (FEMA)
 - Add back all filled positions that were eliminated in the City Manager's budget (\$1,300,107 GF, \$77,033 Recreation Fund, and \$65,994 Westwood Fund)
 - Include new revenues and amendment list items
 - Include a transfer for GF employees to CF in all years
 - Transfer \$984,000 from PSST for the Smalley Center to be used by the Police Department
 - Transfer \$1,508,525 from PSST for the Police Department's Emergency Communications Center

Mr. Francisco said all scenarios include all assumptions in the City Manager's budget for sales tax growth, long term growth in Room Tax, furlough and merit step increase savings in FYE 11, etc. Chairman Cubberley said, ultimately, the hit to the CF from Scenario I only is approximately \$400,000, which will increase each year due to increases in benefits or salaries and Mr. Francisco said that was correct. Mr. Lewis said having the CF take on more responsibility for some of the personnel services is less than 10% of the CF. Chairman Cubberley said that can be an issue when stressing maintenance as \$400,000 equals a lot of roof and this is a policy shift that Council really needs to consider. Mr. Francisco agreed and said it is a significant hit to the CF.

Councilmember Ezzell asked about the revenue growth projections for sales tax in outlying years and Mr. Francisco said an average of 4.3%. Councilmember Ezzell asked if the City Manager is lowering that to 0% for FYE 11 and Mr. Francisco said yes. Councilmember Ezzell felt 0% growth for a year is unreasonable and overly conservative. Mr. Lewis said he spoke with local bankers and financial advisors and the financial advisors did not think it was unreasonable to budget a 2% to 2 1/2% decrease, so 0% was in the middle. Councilmember Ezzell said he understood that, but he was encouraged to see a positive trend in the main numbers, which is a reminder that a lot of the projections are simply predicting the future and there will be opportunity to adjust and he would rather err on the side of saving jobs. Councilmember Kovach suggested any overage of expected income be placed into a special fund that Council would have direct control over to put towards the reserve balance. Mr. Francisco said, by law, that is what happens. Councilmember Kovach said he would like it shown as a separate fund.

Chairman Cubberley said these are educated projections that are used each year to determine the budget's course and if Council does not look at the outlying years, then the problems will have to be revisited each year. He said three years ago when Council opened 14 positions Mr. Francisco cautioned Council to consider funding for outlying years and Council ignored that advice.

Mr. Francisco detailed the funds under each scenario asked for Council's direction. Mayor Rosenthal said she attended the PSST meeting and Staff made a presentation on the use of PSST funds. She said the Committee was asked to focus on three distinct issues - is there an excess and if so, what can you spend it on, and when can you spend it?

She said it was a strongly held view by the Committee that it is too early to use PSST. She said there was discussion that the Committee wanted more comfort that some projects were completed such as the fire stations and equipment and other members went to the extreme that no money should be spent, but be reserved for year eight of the seven year sales tax. Chairman Cubberley asked if Council did not use the PSST, could the City have a legal budget by not eliminating the filled positions and Mr. Francisco said yes, in Scenario III. Chairman Cubberley asked if Scenario III had an emergency reserve and Mr. Francisco said in FYE 11.

Councilmember Ezzell said he is in favor of any scenario that saves jobs in FYE 11, but felt the City could not cut enough positions to fix the long term problems. He said when you look at the out years in the fund balance, it is a negative figure so there is an ongoing problem. He said the City runs mean and lean and his greater concern is the revenue shortage and believes the citizens are under taxed for the service level delivered. He said discussion needs to shift to a public fashion to begin educating citizens about what their service level expectations are going to require from a budget perspective. Chairman Cubberley agreed said he has talked with the City Manager about public discussions regarding the revenue stream. He said, so far,

discussion has been in the Finance Committee meetings with no public attending or newspaper reporters and the belief is the City is ignoring things. Councilmember Dillingham said citizens, for whatever reasons, do not understand or do not believe and in order to solve the problem the Council will have to seek help from citizens in terms of voter initiatives. She said the City will have to create a type of forum for Municipal Budgeting 101.

Mayor Rosenthal said the last thing citizens want to hear is, "there is no money" and they want more services, but do not want to pay for it. She said stormwater utility is a \$2 million GF expenditure that can be freed up, but she did not believe the Council should choose Scenario's IV or V because she feels that will hurt chances of utility rate increases. She said Scenario III is problematic because it sends the message that Council has "found the money." She said every time Council "finds money" it reinforces the opinion of voters that the problems are not real.

Chairman Cubberley said no one knows what the State Legislature will do, but indications are they will cut 10%, which will have a ripple effect in the community. He said if people lose their jobs or the State furloughs, that will affect discretionary spending, but the City will probably not see those effects until after August. He said Councilmembers are the stewards of the money, charged with overseeing the budget and Council has to be extremely prudent this time.

Councilmember Ezzell said he would feel better using Scenario III and revising the budget in September with the first quarters sales tax results are under the City's belt and Council Griffith agreed and said if the City has hard numbers to look at, he would feel more comfortable with Scenario III.

Councilmember Kovach said Council could pass the budget with Scenario III being mindful all along of changing situations. He would like a budget retreat to discuss all the different aspects of the revenues. He said Norman has the leanest Staff and if you cut positions then you cut service as well. He said he feels the prudent thing to do right now is to save jobs and tackle the budget again in late summer.

Councilmember Butler felt Council would make a mistake choosing Scenario III as it would only postpone the inevitable so Council should start now in making the point that the City cannot continue on this path. Councilmember Kovach said things could begin looking up in three months and he believes the City should protect their assets. Councilmember Ezzell said he knew a City worker getting "bumped" by another employee whose position had been eliminated and how devastating this would be for his family. Councilmember Dillingham said many employees whose positions are proposed for elimination have started the process of bumping and if the City maintains the jobs for as long as possible, some of the personnel will know they will get bumped and they will, at least, have additional time to find another job and that is why she would support Scenario III.

Councilmember Quinn said last month's revenue is compounding the problem and it makes it more difficult to say the predicted numbers are surer than they are. He said Council will take a hit from the public no matter what, but he would feel more firmly set by choosing Scenario III then revisit the budget toward the end of the first quarter. Councilmember Dillingham said how Council makes that announcement will be critical as well because it is not that Council is saving jobs, but prolonging the inevitable pain.

Councilmember Griffith suggested holding public meetings to educate citizens on how critical the situation is and the legal restriction Council must adhere to. Mr. Francisco said he will address this at the public hearing on May 25th, but how that message gets carried to the public is up to Council

Councilmember Atkins asked if the assumption of furloughs, merit freezes, etc., in Scenario III are not met, can the Council still approve a legal budget and Mr. Francisco said no. Councilmember Atkins said he could agree to Scenario III if the assumptions are met it is made clear during the public meeting that there will have to be concessions and if the assumptions are not met, the cuts are coming back. Chairman Cubberley reminded Council that the City does not usually have union contracts until November, and this budget is based on furloughs beginning July 1st. He said Council will lose four months of savings because of lag time.

Mayor Rosenthal felt Council cannot wait until the end of the first quarter and said Council should revisit the budget September 1st. She said Council should direct the Manager to reduce some salaries and benefits. Chairman Cubberley said the budget is a process and Council will have to begin reducing services to reduce costs so it is better to address that now.

Councilmember Butler asked Mr. Francisco to generate handouts with bullet points about the amendments for the public's review at the public meeting and Chairman Cubberley said he wanted all the budget amendments in separate motions and Councilmembers agreed.

Items submitted for the record

1. Memorandum dated May 18, 2010, from Kenneth Komiske, Director of Utilities, through Steve Lewis, City Manager, to City of Norman Finance Committee with PowerPoint presentation regarding sanitation and water rate increases
2. FYE 11 Fund Summary Scenarios
3. Scenario I, Scenario II, Scenario III, Scenario IV, and Scenario V
4. FYE 11 Budget Changes
5. Added Positions – Budget History
6. E-mail article from the Oklahoma Municipal League, Oklahoma Cities and Towns, "Hotel-Motel taxes improve municipality"
7. Room Tax Comparison and Use

DISCUSSION REGARDING REVENUE/EXPENDITURE REPORT.

Discussion postponed.

DISCUSSION REGARDING REPORT ON OPEN POSITIONS.

Discussion postponed.

The meeting adjourned at 8:12 p.m.

ATTEST:

City Clerk

Mayor